

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Jackson Transportation Authority	County Jackson
Fiscal Year End 9/30/06	Opinion Date 11/17/06	Date Audit Report Submitted to State 1/26/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

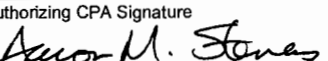
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	N/A	
Other (Describe) Single Audit	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA	License Number 1101024055	

**City of Jackson Act 196
Transportation Authority
Jackson, Michigan**

FINANCIAL STATEMENTS

September 30, 2006

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
City of Jackson Act 196 Transportation Authority
Jackson, Michigan

We have audited the accompanying financial statements of the City of Jackson Act 196 Transportation Authority as of and for the year ended September 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Jackson Act 196 Transportation Authority as of September 30, 2006, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2006, on our consideration of the City of Jackson Act 196 Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Jackson Act 196 Transportation Authority's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, and Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Jackson Act 196 Transportation Authority. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 7, 2006

Jackson Transportation Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

As management of the Jackson Transportation Authority ["the Authority"], we offer readers of the Jackson Transportation Authority's financial statements this narrative overview and analysis of the financial activities of the Jackson Transportation Authority for the fiscal year ended September 30, 2006.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$3,589,979.
- The Authority's total net assets decreased by \$548,813, as the result of current year activity. Depreciation for the current year totaled \$784,539.
- It should be noted that net assets indicate a reduction of \$548,813. However, there was an increase of cash of \$157,735 from the previous year. This can be compared to the last fiscal year (2005) where there was a reduction of cash in the amount of \$317,134 when compared to FY 2004.
- Capital contributions from the federal and state governments amounted to \$126,726 in 2006, partially offsetting depreciation. Capital contributions included vehicle purchases and security monitoring equipment.
- Total expenses exceeded total revenues resulting in a loss of \$4,806,176, prior to adding nonoperating revenue (state and federal grants, and local millage receipts). After adding nonoperating revenue to operating revenue, net assets decreased by \$548,813.

Overview of the Financial Statements

The Management's Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise four components: statements of net assets; statements of revenues, expenses, and changes in net assets; statements of cash flows; and notes to the financial statements.

The statement of net assets presents information on all of the Authority's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The statement of net assets is shown on page 1 of this report.

The statement of revenues, expenses, and changes in net assets presents information on revenues, expenses, capital contributions, and how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues, expenses, and capital contributions are reported in the statements of some items that will only result in cash flows in future fiscal periods. The increase or decrease in net assets may serve as an indicator of the effect of the Authority's current year operations on its financial position. The statement of revenues, expenses, and changes in fund net assets is shown on page 2 of this report.

The statement of cash flows summarizes all of the Authority's cash flows into four categories: cash flows from operating activities; cash flows from noncapital financing activities; cash flows from capital and related financing activities; and cash flows from investing activities. The statement of cash flows is shown on page 3 of this report.

The statement of cash flows, along with related notes and information in other financial statements, can be used to assess the following: the Authority's ability to generate positive future cash flows and pay its debts if and when they occur and/or mature; the reasons for differences between the Authority's operating cash flows and operating income [loss]; the effect of cash and noncash investing, capital, and financing activities on the Authority's financial position.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the statement of net assets; statement of revenues, expenses, and changes in net assets; and statement of cash flows. The notes to the financial statements are shown on pages 4 to 11 of this report.

Jackson Transportation Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

The financial statements provide information on all functions of the Authority as business type activities. The activities of the Authority are supported by a property tax levy, fare collections from passengers, and federal and state financial assistance.

Financial Analysis

Statement of Net Assets - Total assets of the Authority exceeded total liabilities by \$3,589,979 as of September 30, 2006. The largest portion of this excess, (\$2,745,660) of total net assets of \$3,589,979, was invested in capital assets. The Authority used these capital assets to provide public transit services to customers and member jurisdictions; consequently, these assets are not available for future spending. Even though the Authority has no current debt, it should be noted that the Authority's investment in capital assets resources could not be used to liquidate any future liabilities. Such debt, should it occur, would need to be repaid using other sources of revenue such as property tax.

CONDENSED STATEMENT OF NET ASSETS

	<u>2006</u>	<u>2005</u>
Current Assets	\$ 1,189,130	\$ 1,090,949
Capital Assets [net]	<u>2,745,660</u>	<u>3,385,122</u>
Total Assets	3,934,790	4,476,071
Current Liabilities	344,811	337,279
Noncurrent Liabilities	<u>-</u>	<u>-</u>
Total Liabilities	344,811	337,279
Net Assets		
—Invested in Capital Assets	2,745,660	3,385,122
—Unrestricted	<u>844,319</u>	<u>753,670</u>
Total Net Assets	<u>\$ 3,589,979</u>	<u>\$ 4,138,792</u>

Unrestricted net assets (\$844,319) are available to meet the Authority's ongoing obligations. Unrestricted net assets in 2005 were \$753,670 or an increase of \$90,649. This again can be compared to reduction in net assets of \$283,439 in FY 2005 as compared to FY 2004.

Statement of Revenues, Expenses, and Changes in Net Assets - During fiscal year 2006, the Authority's activities resulted in a decrease in net assets of \$548,813. The decrease in net assets is primarily attributable to depreciation. It should be noted however that there was an increase of unrestricted net assets of \$90,649 in the current year. This can again be compared to the decrease of unrestricted net assets of \$283,439 in FY 2005 as compared to FY 2004. This should be viewed as a positive since there had been a trend of significant decreases in unrestricted net assets for several years. While the Authority still faces the challenge of increasing local funding, progress was made this year in limiting the continued reliance upon unrestricted assets. There were several factors that contributed to this change. A number of cost cutting measures were enacted along with a reduction in staffing. Additionally, there were no wage increases in FY 2005 and employees were required to increase contributions for health coverage.

Jackson Transportation Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

CONDENSED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS

	<u>2006</u>	<u>2005</u>
Operating Revenues	\$ 1,080,089	\$ 1,192,636
Nonoperating Revenues	<u>4,263,058</u>	<u>4,381,845</u>
Total Revenues	5,343,147	5,574,481
Depreciation Expense	784,539	908,615
Other Expenses	<u>5,107,421</u>	<u>5,181,064</u>
Total Expenses	5,891,960	6,089,679
Beginning Net Assets	4,138,792	4,653,990
Ending Net Assets	<u>3,589,979</u>	<u>4,138,792</u>
Change in Net Assets	<u>\$ (548,813)</u>	<u>\$ (515,198)</u>

The decrease in operating revenues of \$112,547 (or 9%) is primarily due of a significant reduction of contract service levels with the Head Start agency. Property tax revenues increased by \$15,826. Investment income increased by \$18,299 due to switching banks to earn a better interest rate and having higher cash balances earning interest. State of Michigan Act 51 operating assistance increased by \$35,695 (or 2%). This increase is due to the fact that the State's expense based reimbursement formula was increased slightly from 38.44% in 2005 to 39.25% in 2006. Federal FTA urban operating assistance increased by \$323,903. The significant increase in FTA operating assistance highlights the continued lack of local funding to continue current service levels. Authority officials have the ability to allocate the use of Federal formula funds for operating or capital purchases. Federal formula funds are currently being relied upon to meet general operating expenses that would otherwise be covered by local funds. Unfortunately, this practice leaves very little funding available for capital purchases. This is why the Authority has proposed a county-wide millage to raise local revenue. If a millage proposal fails, services will be drastically reduced.

The following table shows revenues and expenses by source for the fiscal years ended September 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Operating Revenues	\$ 1,080,089	\$ 1,192,636
Nonoperating Revenues		
• Property Taxes	592,751	576,925
• State Funds	2,136,272	2,150,827
• Federal Funds	1,406,783	1,565,465
• Local Funds	102,575	82,250
Interest Earnings	<u>24,677</u>	<u>6,378</u>
Total Revenues	5,343,147	5,574,481
Operations Expenses	3,909,996	4,075,476
Maintenance Expenses	1,101,250	1,147,719
General Administrative Expenses	<u>880,714</u>	<u>866,484</u>
Total Expenses	<u>\$ 5,891,960</u>	<u>\$ 6,089,679</u>

Jackson Transportation Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

Capital Assets and Debt Administration

Capital Assets - The Authority's investment in capital assets as of September 30, 2006, was \$2,745,660 compared to \$3,385,122 in 2005. Investment in capital assets includes: land, buildings and improvements; revenue and nonrevenue vehicles; equipment; furniture, fixtures, and leasehold improvements. The net decrease in capital assets during the current year was \$639,462 (or 19%). The reduction is primarily due to less capital improvements in the 2006 year that would have offset depreciation.

The following table summarizes capital assets net of depreciation as of September 30, 2006.

Land [not depreciated]	\$ 180,119
Buildings and improvements	1,774,307
Revenue vehicles/Service vehicles	526,540
Furniture and fixtures	8,863
Equipment	<u>255,831</u>
Net Capital Assets	<u>\$ 2,745,660</u>

Additional information on the Authority's capital assets is shown in Note D on page 8.

Outstanding Debt - At the end of the 2006 fiscal year, the Authority had no outstanding debt. This was unchanged from the 2005 fiscal year.

Other Significant Items

Once again this year the Authority has had to rely upon cash reserves to meet operating expenses that exceed revenues. For that reason it is important to focus on "Net Assets". Unfortunately, net assets within this report indicate a reduction of \$549,022. While this is accurate from an overall perspective, the actual unrestricted reduction to net assets can be more accurately measured by comparing unrestricted net assets from 2005 to 2006. Unrestricted net assets in 2005 were \$753,670. Unrestricted net assets at the end of 2006 were \$844,110 or an increase of \$90,440. Although this is positive development, cash flow with this level of unrestricted assets continues to be a problem. Due to the timing of Federal funding, the JTA was forced to borrow operating funds from the State during FY 2006. It is likely we will have to once again borrow funds to maintain operations in FY 2007. While this is reflective of the slow Federal appropriations process, it also points to the fact that Authority reserves are at a minimum level needed to sustain operations.

Authority management made significant progress in turning around the continued significant reductions of unrestricted net assets. Without minimizing the real and sometimes painful sacrifices made by JTA employees to change the trend of the past several years, much of the change was a result of increasing reliance on Federal funds to meet operating expenses. Since capital purchases cannot be put off year after year, the Authority must find a way to allow for the appropriate reserve of Federal formula funds for the purchase of needed capital equipment. Otherwise, JTA officials only option is to request capital funding from our federal representatives in the form of "earmarks".

Currently, JTA officials are in the process of negotiating with Jackson County officials to place a millage proposal on the ballot in May of 2007. This proposal, if passed, would change the source of local funding from City residents only, to all Jackson County residents. This would raise additional local revenue to cover operating expense. A large fare increase was instituted in November 2006 to help with local revenue. However, to continue the current county-wide services, additional local revenue must be found. If the proposed millage were to fail, major service cuts would occur in areas outside of the City of Jackson.

It appears that for the near future, Federal funding will remain somewhat steady. State funding may decline due to the struggling economy. The Authority can expect more pressure to raise local sources of funding to maintain current service levels or for expanded service. JTA officials will continue to access all available sources of funding.

Jackson Transportation Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

Request for Information

This financial report is designed to provide our member jurisdictions, customers, investors, and creditors with a general overview of the Authority's finances. If you have questions concerning any of the information provided in this report, or if you need additional financial information, contact the Chief Financial Officer or General Manager at the following address:

Jackson Transportation Authority
2350 East High Street
Jackson, MI 49203
Phone: 517-787-8363

Cameron McCollum
General Manager
Ext. 3790

Dawn Mroczka
Finance Director
Ext. 3781

BASIC FINANCIAL STATEMENTS



CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

STATEMENT OF NET ASSETS

September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash	\$ 628,603	\$ 470,868
Accounts receivable	83,629	86,156
Grants receivable	200,615	209,455
Inventories	246,580	291,993
Prepays	<u>29,703</u>	<u>32,477</u>
Total current assets	1,189,130	1,090,949
Noncurrent assets		
Capital assets not being depreciated	180,119	180,119
Capital assets, net of accumulated depreciation	<u>2,565,541</u>	<u>3,205,003</u>
Total noncurrent assets	<u>2,745,660</u>	<u>3,385,122</u>
TOTAL ASSETS	3,934,790	4,476,071
LIABILITIES		
Current liabilities		
Accounts payable	9,015	8,802
Accrued liabilities	133,462	132,938
Sick and vacation payable	<u>202,334</u>	<u>195,539</u>
TOTAL LIABILITIES	<u>344,811</u>	<u>337,279</u>
NET ASSETS		
Invested in capital assets	2,745,660	3,385,122
Unrestricted	<u>844,319</u>	<u>753,670</u>
TOTAL NET ASSETS	<u>\$ 3,589,979</u>	<u>\$ 4,138,792</u>

See accompanying notes to financial statements.

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Sales and charges for services	\$ 1,080,089	\$ 1,192,636
OPERATING EXPENSES		
Operations	3,909,996	4,075,476
Maintenance	1,101,250	1,147,719
Administrative	<u>875,409</u>	<u>866,484</u>
TOTAL OPERATING EXPENSES	<u>5,886,655</u>	<u>6,089,679</u>
OPERATING (LOSS)	(4,806,566)	(4,897,043)
NONOPERATING REVENUES		
Taxes	592,751	576,925
Intergovernmental		
Federal sources	1,406,783	1,565,465
State sources	2,136,272	2,150,827
Local sources	102,575	82,250
Interest earnings	<u>24,677</u>	<u>6,378</u>
TOTAL NONOPERATING REVENUES	4,263,058	4,381,845
NONOPERATING EXPENSES		
Interest	<u>(5,305)</u>	<u>-</u>
CHANGE IN NET ASSETS	(548,813)	(515,198)
Net assets, beginning of year	<u>4,138,792</u>	<u>4,653,990</u>
Net assets, end of year	<u><u>\$ 3,589,979</u></u>	<u><u>\$ 4,138,792</u></u>

See accompanying notes to financial statements.

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

STATEMENT OF CASH FLOWS

Years Ended September 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 1,082,616	\$ 1,246,972
Cash paid to employees and vendors	(3,740,717)	(3,874,032)
Cash paid for employee benefits	(1,305,680)	(1,369,350)
NET CASH (USED) BY OPERATING ACTIVITIES	(3,963,781)	(3,996,410)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Taxes	592,751	576,925
Intergovernmental sources	3,527,744	3,095,846
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	4,120,495	3,672,771
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital purchases	(145,077)	(676,856)
Capital grants	126,726	676,983
Interest expense	(5,305)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(23,656)	127
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest revenue	24,677	6,378
NET CHANGE IN CASH DURING YEAR	157,735	(317,134)
Cash, beginning of year	470,868	788,002
Cash, end of year	<u>\$ 628,603</u>	<u>\$ 470,868</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED) BY OPERATING ACTIVITIES:		
Operating (loss)	\$ (4,806,566)	\$ (4,897,043)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities		
Depreciation	784,539	908,615
Decrease in accounts receivable	2,527	54,336
(Increase) decrease in inventories	45,413	(31,124)
Decrease in prepaids	2,774	245
(Decrease) in accounts payable	213	(27,837)
Increase (decrease) in sick and vacation payable	6,795	(1,700)
Increase (decrease) in accrued liabilities	524	(1,902)
NET CASH (USED) BY OPERATING ACTIVITIES	<u>\$ (3,963,781)</u>	<u>\$ (3,996,410)</u>

See accompanying notes to financial statements.

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Jackson Act 196 Transportation Authority (JTA) was established under the applicable laws of the State of Michigan Public Act 196, as amended, to operate a transportation system within the County of Jackson on November 3, 1986. Public Act 196 known as the "public transportation authority act" authorizes the formation of public transportation authorities with certain powers and duties as separate and distinct political subdivisions within the State of Michigan.

The JTA receives Federal and State financial assistance in the form of operating and capital grant funding to support its operation, expand marketing and specialized services, and replace buses and other equipment. The JTA provides linehaul and demand response services within the City of Jackson and Jackson County. The JTA provides services on a contractual basis to several nonprofit and governmental agencies within the County as well as other services not provided through private providers.

The accounting policies of the City of Jackson Act 196 Transportation Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. In accordance with Governmental Accounting Standards Board Statement 20, the Authority has elected not to apply the FASB Statements and interpretations issued after November 30, 1989, to its financial statements. The following is a summary of the significant policies:

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the City of Jackson Act 196 Transportation Authority. The Authority has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14, as amended by Statement No. 39, and has determined that no other entities should be included in its financial statements as component units. Therefore, the reporting entity consists only of the primary government financial statements.

2. Basis of Presentation

The accounts of the JTA are organized on the basis of a fund which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. JTA resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., net total assets) is segregated into invested in capital (net of related debt) and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred.

5. Cash

The JTA pooled cash accounts consist of various checking and savings accounts. The balances in the pooled cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing accounts.

6. Capital Assets and Long-Term Liabilities

Capital assets include all buildings, vehicles, equipment, furniture, and fixtures purchased with federal or state monies or assets with an acquisition cost exceeding \$1,000 if purchased with local monies. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

Buildings	30 years
Vehicles	5-10 years
Furniture and fixtures	10 years
Equipment	5-10 years

Long-term liabilities are recognized in the basic financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term. JTA did not have any long-term liabilities at September 30, 2006.

7. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Accrued Vacation and Sick Leave

JTA employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount has been recorded as a current liability.

9. Cost Allocations

JTA allocates expenses between various program activities for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor agency (i.e., vehicle miles per program activity).

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

10. Comparative Data

Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the financial position and operations of the Authority.

NOTE B: CASH

The JTA is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which it maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental agency's are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of September 30, 2006, the carrying amounts of the Authority's deposits were \$624,902 and the bank balance was \$686,195, of which \$200,000 was insured by the FDIC. The balance of \$486,195 was uninsured and uncollateralized. The Statement of Net Assets caption "Cash" includes \$3,701 of imprest cash.

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE B: CASH - CONTINUED

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2006, the Authority did not have any investments that would be subject to rating.

Interest rate risk

The Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's cash requirements.

Concentration of credit risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Authority will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Authority will do business in accordance with Board approved policy.

NOTE C: GRANTS RECEIVABLE

Grants receivable at September 30, 2006, by grant type and year are as follows:

State Operating Assistance - FY 06	\$ 78,827
State Operating Assistance - FY05	19,968
State Operating Assistance - FY04	2,768
State Operating Assistance - FY03	37,053
State Capital Match 02-0054/Z16	178
State Capital Match 02-0054/Z11	372
Federal Capital Grant 90-0501	14,453
Federal Section 5311 - FY04	8,965
Federal Section 5311 - FY05	15,100
Federal Section 5311 - FY06	22,646
Other:	
Western Union FY04	285
Total	<u>\$ 200,615</u>

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006, was as follows:

	Balance Oct. 1, 2005	Additions	Deletions	Balance Sept. 30, 2006
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 180,119	\$ -	\$ -	\$ 180,119
Capital assets being depreciated				
Buildings and improvements	4,243,795	-		4,243,795
Vehicles	4,483,658	93,852	(139,985)	4,437,525
Furniture and fixtures	102,677	-	-	102,677
Components parts	63,562	21,529	(63,562)	21,529
Equipment	<u>1,720,679</u>	<u>29,696</u>	<u>(33,534)</u>	<u>1,716,841</u>
Total capital assets being depreciated	10,614,371	145,077	(237,081)	10,522,367
Less accumulated depreciation for:				
Buildings and improvements	(2,278,262)	(191,226)	-	(2,469,488)
Vehicles	(3,651,068)	(399,902)	139,985	(3,910,985)
Furniture and fixtures	(90,647)	(3,167)	-	(93,814)
Components parts	(63,562)	(21,529)	63,562	(21,529)
Equipment	<u>(1,325,829)</u>	<u>(168,715)</u>	<u>33,534</u>	<u>(1,461,010)</u>
Total accumulated depreciation	<u>(7,409,368)</u>	<u>(784,539)</u>	<u>237,081</u>	<u>(7,956,826)</u>
Net capital assets being depreciated	<u>3,205,003</u>	<u>(639,462)</u>	<u>-0-</u>	<u>2,565,541</u>
Net capital assets	<u>\$ 3,385,122</u>	<u>\$(639,462)</u>	<u>\$ -0-</u>	<u>\$ 2,745,660</u>

A summary of capital assets by funding source at September 30, 2006, follows:

	Purchased with Capital Grants
Land	\$ 180,119
Buildings	4,179,991
Vehicles	4,437,525
Furniture and fixtures	90,948
Components parts	21,529
Equipment	<u>1,703,510</u>
Total	10,613,622
Less: accumulated depreciation	<u>(7,895,254)</u>
Net Property and Equipment	<u>\$ 2,718,368</u>

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE D: CAPITAL ASSETS - CONTINUED

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the United States Department of Transportation (USDOT) and the Michigan Department of Transportation (MDOT). During the year the Jackson Transportation Authority disposed of assets that were federally and State funded with a historical cost of \$237,081. The total amount disposed of was fully depreciated. Depreciation expense in the amount of \$786,993 was reported for year ended September 30, 2006.

NOTE E: RETIREMENT PLAN

Plan Description

The JTA participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

Covered employees contribute 4% of their annual salary to the retirement system. The JTA is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For year ended September 30, 2006, the JTA's annual pension cost of \$152,140 for the plan was equal to the JTA's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty (30) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial value of assets	\$ 1,693,913	\$ 2,080,232	\$ 2,390,800
Actuarial accrued liability (AAL) (entry age)	2,658,466	3,063,542	3,368,402
Unfunded (overfunded) AAL	964,553	983,310	977,602
Funded ratio	64 %	68 %	71 %
Covered payroll	2,555,505	2,480,328	2,235,173
UAAL as a percentage of covered payroll	38 %	40 %	44 %

CITY OF JACKSON ACT 196
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NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE E: RETIREMENT PLAN - CONTINUED

Three (3) year trend information - continued

	Year Ended September 30,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Annual pension cost	\$ 167,044	\$ 161,217	\$ 152,140
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

NOTE F: COMPENSATED ABSENCES

Vacation leave is earned in varying amounts depending on the number of years of service of an employee. Vacation must be taken within a one (1) year period and is not subject to carryover, except if approved by the department head, and then cannot exceed 25% of the vacation leave available that year.

Sick leave is granted at a rate of six (6) days per year. Any unused sick pay up to sixteen (16) hours may be carried over to the next fiscal year. Unused sick time exceeding the sixteen (16) hours is payable to the employees in the first week of the next fiscal year.

Vacation leave is recorded as an expense when earned. Sick leave is not recorded until utilized or paid. Accumulated sick leave is immaterial.

The sick and vacation payable at September 30, 2006, was \$202,334 and is recorded as a current liability in the financial statements.

NOTE G: PROPERTY TAX REVENUES

The JTA property tax is levied in December on the Taxable Valuation of property located in the City of Jackson as of the preceding December. Real and personal property in the City for the current levy was assessed and equalized at approximately \$720 million representing 50% of estimated current market value. In September 2003, the JTA's tax rate of 1.00 mill was renewed for five (5) years, covering the period from October 1, 2003 through September 30, 2008. For the year ended September 30, 2006, the JTA levied .9597 mills, due to the Headlee rollback.

NOTE H: RISK MANAGEMENT

The JTA is a member of the Michigan Transit Pool ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities.

This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of the JTA. The JTA pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums.

The JTA continues to carry commercial insurance for employee health, workers' compensation, and other insurance including general liability and commercial building insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE I: NET ASSETS RESERVE

The Board of Directors of the JTA has earmarked \$200,000 of net assets to provide a reserve for uninsured losses.

NOTE J: CONTINGENT LIABILITIES

Under the terms of various Federal and State grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

NOTE K: FLEXIBLE BENEFITS PLAN

In January 1994, JTA implemented a flexible benefits cafeteria plan established under section 125 of the Internal Revenue Code. The plan is available to all employees who are eligible to have health coverage under JTA's health insurance plan and have a benefit election form on file. The plan permits employees to waive health insurance coverage from JTA and receive a cash benefit in lieu of such health insurance. The plan also permits employees receive dependent care expense reimbursement.

The plan is administered by Flex One.

NOTE L: DEFERRED COMPENSATION

The JTA offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to substantially all employees of JTA, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The Plan is administered through Nationwide Retirement Solutions.

Legislative change has been made to 457 plans which mandate that no later than January 1, 1999, all existing 457 plan assets must be held in a custodial account, trust, annuity contract for benefit of participants and their beneficiaries.

Once a trust, custodial account, or annuity contract exists, assets are owned or held by the trust, custodian, or insurer for the exclusive benefit of participants and beneficiary, and are not subject to the claims of the public employees creditors nor can they be used by the public employee for any purpose other than the payment of benefits to these individuals participating in the plan it their designated beneficiaries. As of December 31, 1997, the JTA had implemented changes to be in compliance with the new requirement. As a result, the plan assets are not reported by the JTA because the new legislation has eliminated the requirements that Section 457 plan assets legally remain the assets of the sponsoring government.

OTHER SUPPLEMENTARY INFORMATION

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

SCHEDULE OF OPERATING REVENUES

Year Ended September 30, 2006

	Linehaul	Demand Response	County Demand Response	Total
Operating revenues				
Passenger fares	\$ 260,409	\$ 120,923	\$ 42,020	\$ 423,352
Special transit fares				
Tickets ride and shop	2,602	-	-	2,602
Contract - DaVinci Institute	4,365	-	-	4,365
Jackson Community College	23,398	-	-	23,398
Contract - Region II Head Start	-	260,972	-	260,972
Contract - Foote Hospital	-	189	-	189
Contract - Workfirst	-	33,139	19,471	52,610
PET Coordination from Agency	-	12,000	-	12,000
Medical shuttle	38,080	54,814	32,368	125,262
Total special fares	68,445	361,114	51,839	481,398
Auxiliary transportation revenue				
Advertising	11,654	-	-	11,654
Crosstown Communications	6,000	-	-	6,000
Greyhound	8,784	12,644	7,466	28,894
Total auxiliary transportation revenue	26,438	12,644	7,466	46,548
Nontransportation revenue				
Contract maintenance	35,328	50,854	30,028	116,210
Western Union	1,450	2,088	1,233	4,771
American payment	536	772	456	1,764
Miscellaneous income	1,639	2,359	1,393	5,391
CDL road test	199	287	169	655
Total nontransportation revenue	39,152	56,360	33,279	128,791
TOTAL OPERATING REVENUES	<u>\$ 394,444</u>	<u>\$ 551,041</u>	<u>\$ 134,604</u>	<u>\$ 1,080,089</u>

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

SCHEDULE OF OPERATING EXPENSES

Year Ended September 30, 2006

	Operations	Maintenance	General Administrative	Total System
Labor				
Operator's salaries and wages	\$ 1,248,558	\$ -	\$ -	\$ 1,248,558
Dispatcher's salaries and wages	291,231	-	-	291,231
Other salaries and wages	116,305	515,155	277,832	909,292
Fringe benefits				
Pension	88,460	33,305	30,375	152,140
Other	786,213	258,907	115,739	1,160,859
Contractual services				
Advertising	-	-	22,120	22,120
Audit cost	-	-	10,300	10,300
Other services	-	29,433	117,422	146,855
Materials and supplies consumed				
Fuel and lubricants	411,060	-	-	411,060
Tires and lubes	23,195	-	-	23,195
Major supplies	1,022	576	866	2,464
Other materials and supplies	200,404	103,510	45,648	349,562
Utilities	-	-	108,286	108,286
Insurance	222,386	-	29,651	252,037
Taxes	754	349	-	1,103
Miscellaneous expenses				
Travel, meetings, and training	-	2,623	4,264	6,887
Dues and subscriptions	-	-	457	457
Other miscellaneous expenses	2,612	484	1,946	5,042
Lease and rentals	-	-	668	668
Depreciation	517,796	156,908	109,835	784,539
TOTAL OPERATING EXPENSES	\$ 3,909,996	\$ 1,101,250	\$ 875,409	\$ 5,886,655

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

SCHEDULE OF NONOPERATING REVENUES - LOCAL

Year Ended September 30, 2006

	Linehaul	Demand Response	County Demand Response	Total
Local operating grant				
Property tax	\$ 226,833	\$ 326,521	\$ -	\$ 553,354
Single Business tax	16,150	23,247	-	39,397
Municipality participation				
Park Forest	2,000	-	-	2,000
Other				
Center for Family Health	1,500	-	-	1,500
County of Jackson	-	-	99,075	99,075
Interest income	<u>7,502</u>	<u>10,798</u>	<u>6,377</u>	<u>24,677</u>
TOTAL NONOPERATING REVENUES - LOCAL	<u>\$ 253,985</u>	<u>\$ 360,566</u>	<u>\$ 105,452</u>	<u>\$ 720,003</u>

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

SCHEDULE OF NONOPERATING REVENUES - STATE AND FEDERAL

Year Ended September 30, 2006

	Linehaul	Demand Response	County Demand Response	Total
State of Michigan grants				
Formula operating assistance (Act 51)	\$ 593,986	\$ 855,027	\$ 504,888	\$ 1,953,901
Capital match for Section 5307 grants	-	21,327	-	21,327
Prior year adjustments	-	-	161,044	161,044
Total State operating grants	593,986	876,354	665,932	2,136,272
Federal grants				
U.S.D.O.T. operating grant - Section 5307	440,669	634,331	-	1,075,000
U.S.D.O.T. operating grant - Section 5311	-	-	218,581	218,581
R.T.A.P.	-	-	477	477
U.S.D.O.T capital grant - Section 5307	42,836	69,889	-	112,725
Total Federal operating and capital grants	483,505	704,220	219,058	1,406,783
TOTAL NONOPERATING REVENUES - STATE AND FEDERAL	<u>\$ 1,077,491</u>	<u>\$ 1,580,574</u>	<u>\$ 884,990</u>	<u>\$ 3,543,055</u>

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

SCHEDULE OF OPERATING EXPENSES BY ACTIVITY

Year Ended September 30, 2006

	Operations	Maintenance	General Administrative	Total System
Linehaul				
Operator's salaries and wages	\$ 379,562	\$ -	\$ -	\$ 379,562
Dispatcher's salaries and wages	88,534	-	-	88,534
Other salaries and wages	35,357	156,607	84,461	276,425
Payroll taxes	51,676	15,512	7,835	75,023
Vacation pay	37,987	12,500	8,178	58,665
Group health insurance	94,808	30,784	15,297	140,889
Group life insurance	7,490	2,711	1,239	11,440
Tool allowance	-	1,064	-	1,064
Uniform expense	5,261	4,169	-	9,430
Workers' compensation	31,607	9,149	832	41,588
Dental insurance	10,180	2,818	1,463	14,461
Pension	26,892	10,125	9,234	46,251
Flexible spending	-	-	342	342
Contract radio	-	4,099	-	4,099
Janitorial	-	4,849	-	4,849
Police surveillance	-	-	231	231
Accounting	-	-	3,131	3,131
Contract services	-	-	2,000	2,000
Volunteer services	-	-	19,998	19,998
Answering service	-	-	3,650	3,650
Computer maintenance	-	-	9,426	9,426
Attorney fees	-	-	391	391
Diesel fuel	72,471	-	-	72,471
Gasoline	48,910	-	-	48,910
Tires	7,051	-	-	7,051
Major supplies	311	175	263	749
Bus parts	60,923	-	-	60,923
Building maintenance	-	13,613	-	13,613
Cleaning supplies	-	6,709	-	6,709
Shop tools	-	590	-	590
Shop supplies	-	6,029	-	6,029
Miscellaneous hardware	-	1,553	-	1,553
Outside labor	-	2,973	-	2,973
Lubricants and oils	3,582	-	-	3,582
Office supplies	-	-	3,038	3,038
Printing expense	-	-	9,892	9,892
Computer supplies	-	-	946	946
Power	-	-	23,199	23,199
Telephone	-	-	6,931	6,931
Water	-	-	2,520	2,520
Refuse	-	-	268	268
Liability insurance	67,606	-	-	67,606
Operating insurance	-	-	9,014	9,014
Travel and meetings	-	-	1,296	1,296
Marketing	-	-	6,724	6,724
Physicals/drug testing	794	147	-	941
CDL reimbursement	103	106	-	209

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

SCHEDULE OF OPERATING EXPENSES BY ACTIVITY - CONTINUED

Year Ended September 30, 2006

	Operations	Maintenance	General Administrative	Total System
Linehaul - continued				
Dues - subscriptions	\$ -	\$ -	\$ 139	\$ 139
Miscellaneous	-	-	487	487
Mileage chargebacks	-	-	39	39
City license fees	126	-	-	126
Education and training	-	797	-	797
Bad debts	-	-	75	75
Office machine and equipment	-	-	203	203
Total linehaul	1,031,231	287,079	232,742	1,551,052
Demand response				
Operator's salaries and wages	546,369	-	-	546,369
Dispatcher's salaries and wages	127,443	-	-	127,443
Other salaries and wages	50,895	225,432	121,579	397,906
Payroll taxes	74,386	22,329	11,278	107,993
Vacation pay	54,682	17,994	11,772	84,448
Group health insurance	136,474	44,312	22,020	202,806
Group life insurance	10,781	3,903	1,782	16,466
Tool allowance	-	1,532	-	1,532
Uniform expense	7,573	6,001	-	13,574
Workers' compensation	45,497	13,170	1,197	59,864
Dental insurance	14,654	4,057	2,106	20,817
Pension	38,710	14,574	13,292	66,576
Flexible spending	-	-	492	492
Contract radio	-	5,900	-	5,900
Janitorial	-	6,980	-	6,980
Police surveillance	-	-	333	333
Accounting	-	-	4,507	4,507
Contract services	-	-	2,880	2,880
Volunteer services	-	-	28,787	28,787
Answering service	-	-	5,253	5,253
Computer maintenance	-	-	13,568	13,568
Attorney fees	-	-	563	563
Diesel fuel	104,318	-	-	104,318
Gasoline	70,405	-	-	70,405
Tires	10,150	-	-	10,150
Major supplies	447	252	379	1,078
Van parts	87,697	-	-	87,697
Building maintenance	-	19,596	-	19,596
Cleaning supplies	-	9,657	-	9,657
Shop tools	-	850	-	850
Shop supplies	-	8,678	-	8,678
Miscellaneous hardware	-	2,236	-	2,236
Outside labor	-	4,280	-	4,280
Lubricants and oils	5,157	-	-	5,157
Office supplies	-	-	4,373	4,373

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

SCHEDULE OF OPERATING EXPENSES BY ACTIVITY - CONTINUED

Year Ended September 30, 2006

	Operations	Maintenance	General Administrative	Total System
Demand response - continued				
Printing expense	\$ -	\$ -	\$ 14,240	\$ 14,240
Computer supplies	-	-	1,362	1,362
Power	-	-	33,396	33,396
Telephone	-	-	9,977	9,977
Water	-	-	3,628	3,628
Refuse	-	-	386	386
Liability insurance	97,316	-	-	97,316
Operating insurance	-	-	12,975	12,975
Travel and meetings	-	-	1,866	1,866
Marketing	-	-	9,680	9,680
Physicals/drug testing	1,143	212	-	1,355
CDL reimbursement	149	153	-	302
Dues - subscriptions	-	-	200	200
Miscellaneous	-	-	701	701
Mileage chargebacks	-	-	56	56
City license fees	181	-	-	181
Education and training	-	1,148	-	1,148
Bad debts	-	-	108	108
Office machine and equipment	-	-	292	292
Total demand response	1,484,427	413,246	335,028	2,232,701
County nonurban				
Operator's salaries and wages	322,627	-	-	322,627
Dispatcher's salaries and wages	75,254	-	-	75,254
Other salaries and wages	30,053	133,116	71,792	234,961
Payroll taxes	43,924	13,185	6,659	63,768
Vacation pay	32,289	10,625	6,951	49,865
Group health insurance	80,587	26,166	13,003	119,756
Group life insurance	6,366	2,305	1,053	9,724
Tool allowance	-	904	-	904
Uniform expense	4,472	3,544	-	8,016
Workers' compensation	26,866	7,777	707	35,350
Dental insurance	8,653	2,396	1,244	12,293
Pension	22,858	8,606	7,849	39,313
Flexible spending	-	-	289	289
Contract radio	-	3,484	-	3,484
Janitorial	-	4,121	-	4,121
Police surveillance	-	-	197	197
Accounting	-	-	2,662	2,662
Contract services	-	-	1,700	1,700
Volunteer services	-	-	16,998	16,998
Answering service	-	-	3,102	3,102
Computer maintenance	-	-	8,012	8,012
Attorney fees	-	-	333	333
Diesel fuel	61,599	-	-	61,599

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

SCHEDULE OF OPERATING EXPENSES BY ACTIVITY - CONTINUED

Year Ended September 30, 2006

	Operations	Maintenance	General Administrative	Total System
County nonurban - continued				
Gasoline	\$ 41,573	\$ -	\$ -	\$ 41,573
Tires	5,994	-	-	5,994
Major supplies	264	149	224	637
Bus parts	51,784	-	-	51,784
Building maintenance	-	11,571	-	11,571
Cleaning supplies	-	5,702	-	5,702
Shop tools	-	502	-	502
Shop supplies	-	5,124	-	5,124
Miscellaneous hardware	-	1,320	-	1,320
Outside labor	-	2,527	-	2,527
Lubricants and oils	3,045	-	-	3,045
Office supplies	-	-	2,582	2,582
Printing expense	-	-	8,408	8,408
Computer supplies	-	-	807	807
Power	-	-	19,720	19,720
Telephone	-	-	5,891	5,891
Water	-	-	2,142	2,142
Refuse	-	-	228	228
Liability insurance	57,464	-	-	57,464
Operating insurance	-	-	7,662	7,662
Travel and meetings	-	-	1,102	1,102
Marketing	-	-	5,716	5,716
Dues - subscriptions	-	-	118	118
Physicals/drug testing	675	125	-	800
CDL reimbursement	88	90	-	178
City license fees	107	-	-	107
Miscellaneous	-	-	416	416
Education and training	-	678	-	678
Bad debts	-	-	64	64
Office machine and equipment	-	-	173	173
Total County nonurban	876,542	244,017	197,804	1,318,363
Depreciation	517,796	156,908	109,835	784,539
TOTAL OPERATING EXPENSES	<u>\$ 3,909,996</u>	<u>\$ 1,101,250</u>	<u>\$ 875,409</u>	<u>\$ 5,886,655</u>

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS

Year Ended September 30, 2006

	Federal Section 5311 Nonurban	Federal Section 5307 Urban	State Operating Assistance
Expenses			
Labor	\$ 632,842	\$ 1,816,239	\$ 2,449,081
Fringe benefits	339,278	973,721	1,312,999
Services	46,325	132,950	179,275
Materials and supplies	203,175	583,106	786,281
Utilities	27,981	80,305	108,286
Casualty and liability costs	65,126	186,911	252,037
Taxes and fees	285	818	1,103
Miscellaneous	3,178	9,208	12,386
Leases and rentals	173	495	668
Depreciation	196,135	588,404	784,539
Total expenses	1,514,498	4,372,157	5,886,655
Less ineligible expenses			
Nontransportation revenues	3,251	9,330	12,581
Expenses associated with sale of maintenance service	30,029	86,181	116,210
Bad debts	64	183	247
Grant costs			
RTAP	477	-	477
Depreciation	194,904	584,714	779,618
Total ineligible expenses	228,725	680,408	909,133
NET ELIGIBLE EXPENSES	<u>\$ 1,285,773</u>	<u>\$ 3,691,749</u>	<u>\$ 4,977,522</u>
Maximum Section 5311 reimbursement 17% of \$1,285,773, not to exceed \$218,372	<u>\$ 218,581</u>		
Maximum Section 5307 reimbursement 50% of \$3,691,749, not to exceed \$1,075,000		<u>\$ 1,075,000</u>	
State operating assistance 39.2545% of \$4,977,522			<u>\$ 1,953,901</u>

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

SCHEDULE OF INELIGIBLE EXPENSES

Year Ended September 30, 2006

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Ineligible Expense</u>
Urban Mass Transportation Administration		
A) Operating Grants Listed on Schedule of Expenditures of Federal Awards		
	1. Nontransportation revenues and miscellaneous income expense are deducted as ineligible grant expenses.	\$ 12,581
	2. Expenses related to sale of maintenance service.	116,210
	3. Grant Costs - grant expenditures are included in the total expenses; therefore, they are deducted to arrive at net eligible expenses.	477
	4. Depreciation - depreciation on capital assets purchased with grants must be deducted as an ineligible expense.	779,618
	5. Bad debts - bad debts are deducted as ineligible grant expense.	<u>247</u>
	Total	<u>\$ 909,133</u>

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

SCHEDULE OF MILEAGE DATA (UNAUDITED)

Year Ended September 30, 2006

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Public Transportation Mileage (1)
Linehaul City	87,466	92,124	91,495	90,993	362,078
Demand Response					
City	82,707	79,009	73,275	72,588	307,579
County	20,001	22,260	24,904	25,318	92,483
Total demand response	102,708	101,269	98,179	97,906	400,062
Medical Shuttle					
City	13,472	14,406	15,441	14,949	58,268
County	8,626	7,182	7,493	6,562	29,863
Total medical shuttle	22,098	21,588	22,934	21,511	88,131
P.E.T.					
City	24,239	26,100	23,018	20,420	93,777
County	38,711	45,106	44,653	41,939	170,409
Total P.E.T.	62,950	71,206	67,671	62,359	264,186
Headstart					
City	18,582	21,305	8,364	-	48,251
WIA/Workfirst Program					
City	7,649	3,074	5,752	1,077	17,552
County	8,275	4,766	1,167	1,283	15,491
Total WIA/Workfirst	15,924	7,840	6,919	2,360	33,043
Linehaul deadhead	3,660	3,624	3,618	3,612	14,514
TOTAL MILEAGE	<u>313,388</u>	<u>318,956</u>	<u>299,180</u>	<u>278,741</u>	<u>1,210,265</u>

- (1) The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended September 30, 2006

	Grant/ Agreement <u>Account No.</u>	Program Approved <u>Amount</u>	<u>Current</u> <u>Revenues</u>	<u>Expenditures</u>
MICHIGAN DEPARTMENT OF TRANSPORTATION				
Act 51 Formula - 2000 reconciliation	Operating	\$ 2,275,502	\$ 71,908	\$ 71,908
Act 51 Formula - 2001 reconciliation	Operating	2,132,731	23,219	23,219
Act 51 Formula - 2002 reconciliation	Operating	2,090,200	(8,502)	(8,502)
Act 51 Formula - 2005 reconciliation	Operating	1,955,798	74,419	74,419
Act 51 Formula - 2006	Operating	1,953,901	1,953,901	1,953,901
Capital Match for 90-0429	MDOT 02-0054 Z14	18,000	18,000	18,000
Capital Match for 90-0444	MDOT 02-0054 Z11	<u>112,478</u>	<u>3,327</u>	<u>3,327</u>
 TOTAL STATE ASSISTANCE		 <u>\$10,538,610</u>	 <u>\$ 2,136,272</u>	 <u>\$ 2,136,272</u>

<u>Grant-To-Date</u>		<u>Grant Balance</u>	<u>Grant Status</u>
<u>Revenues</u>	<u>Expenditures</u>		
\$ 2,275,502	\$ 2,275,502	\$ -0-	Completed
2,132,731	2,132,731	-0-	Completed
2,090,200	2,090,200	-0-	Completed
1,936,100	1,936,100	19,698	Incomplete
1,953,901	1,953,901	-0-	Completed
18,000	18,000	-0-	Completed
<u>112,478</u>	<u>112,478</u>	<u>-0-</u>	Completed
<u>\$10,518,912</u>	<u>\$10,518,912</u>	<u>\$ 19,698</u>	

SINGLE AUDIT SECTION

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2006

<u>Federal Grantor and Pass-through Program Title</u>	<u>Grant/ Agreement Account No.</u>	<u>Federal CFDA Number</u>	<u>Program Award Amount</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Federal Transit Administration			
Direct Assistance			
Federal Transit - Formula Grants ^(a)		20.507	
Section 5307 operating	MI 90-4444		\$ 1,075,000
Section 5307 capital	MI 90-0444		449,905
Section 5307 capital	MI 90-0473		130,000
Section 5307 capital	MI 90-0509		1,000,000
Section 5307 capital	MI 90-0429		<u>72,000</u>
			2,726,905
 Passed through Michigan Department of Transportation			
Formula Grants for Other than Urbanized Areas		20.509	
RTAP training funds	N/A		477
Section 5311 operating	02-0054/Z5		<u>218,581</u>
Total Passed through Michigan Department of Transportation			<u>219,058</u>
 TOTAL FEDERAL ASSISTANCE			 <u>\$ 2,945,963</u>

^(a) Denotes major program

<u>Revenues</u>	<u>Expenditures</u>	<u>Grant Status</u>
\$ 1,075,000	\$ 1,075,000	Completed
13,312	13,312	Completed
12,960	12,960	Completed
14,453	14,453	Incomplete
<u>72,000</u>	<u>72,000</u>	Completed
1,187,725	1,187,725	
477	477	Completed
<u>218,581</u>	<u>218,581</u>	Completed
<u>219,058</u>	<u>219,058</u>	
<u>\$ 1,406,783</u>	<u>\$ 1,406,783</u>	

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
City of Jackson Act 196 Transportation Authority
Jackson, Michigan

We have audited the basic financial statements of the City of Jackson Act 196 Transportation Authority as of and for the year ended September 30, 2006, and have issued our report thereon dated November 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Jackson Act 196 Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Jackson Act 196 Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management and the Board of Directors of the City of Jackson Act 196 Transportation Authority, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 7, 2006

Principals

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
City of Jackson Act 196 Transportation Authority
Jackson, Michigan

Compliance

We have audited the compliance of the City of Jackson Act 196 Transportation Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to each of its major Federal programs for the year ended September 30, 2006. The City of Jackson Act 196 Transportation Authority's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major Federal programs is the responsibility of the City of Jackson Act 196 Transportation Authority's management. Our responsibility is to express an opinion on the City of Jackson Act 196 Transportation Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the City of Jackson Act 196 Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Jackson Act 196 Transportation Authority's compliance with those requirements.

In our opinion, the City of Jackson Act 196 Transportation Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the City of Jackson Act 196 Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Jackson Act 196 Transportation Authority's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the Board of Directors of the City of Jackson Act 196 Transportation Authority, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 7, 2006

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Reportable condition(s) identified that are not
considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Reportable condition(s) identified that are not
considered to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with
Section 501(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.500 & 20.507	Federal Transit Cluster

Dollar threshold used to distinguish between Type A and
Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

CITY OF JACKSON ACT 196
TRANSPORTATION AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2006

There were no findings disclosed for the past two years.